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MERGERS AND ACQUISITIONS – BETWEEN VIABILITY AND VULNERABILITY

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Abstract
Size does not represent a condition for a company to become competitive and profitable in the market, but in the unhappy situation when an acquisition seems to be the last solution of saving a company, a manager must know how to take the right decision and to prepare the company for the transaction. That is why the objective of the current paper is to analyze the situation of the Romanian mergers and acquisitions market, pointing out in the same time some mistakes that should be avoided in the case of an acquisition. Our results showed that the Romanian merger and acquisition market has not yet bounced back from the crisis due to the differences between the expectations of sellers and those ones of buyers and due to the tensions of the euro zone, but there are still international breaking opportunities for the years to come.
Keywords: Acquisition, Competitive advantage, Global player, Merger.

1. INTRODUCTION

Terry Paulson (1998), psychologist and communication expert, argues in his book “Paulson on Change” that “it’s easiest to ride a horse in the direction it is going”. In other words, we don’t necessary have to fight against change, we just have to use it in our advantage, being absolutely mandatory to “take control of change and conflicts, otherwise they will control you”. This is the reason for which the main objective of this research is to analyze the situation of the mergers and acquisitions market, focusing on the Romanian market and pointing out in the same time some mistakes that should be avoided in the case of an acquisition.

Change takes place as a continuous necessity of adaptation to the social, technological and natural environment, and any change implies an adaptation effort and of course a certain cost. At organizational level, change takes place as a necessary process of organic development or structural and functional adaptation to the dynamics of the external environment. In order to maintain an organization in an efficient functioning state, we must adapt it to the new requirements of the environment. Indeed, managers from all over the world face adaptation problems in what concerns the organization they are running. The changes within an organization are different from the point of view of their complexity, ranging from organizing teamworks, planning a new strategy or refining the organizational structure, and include even an acquisition or a merger with another company.

It should also be mentioned the fact that there are a series of change sources. The first among these is represented by the technological evolution, which lately and especially in certain areas is more and more common and profound. Then we have the knowledge outburst which is not new for anybody. Another source is the rapid obsolescence of products. Almost every month, cheaper and more complex electronic equipment is introduced on the market. Last but not least, we must also mention the two sources concerning labour force, namely work environment (where the continuous improvement in reducing absenteeism, labour force instability and work accidents brings several changes in an organization) and changes regarding the nature of the labour force, towards a generation that is more trained in the field of management. Reducing trade barriers and the different forms of transportation are other sources that drive the landscape of the market into an extremely unsafe arena, one dominated by complexity and competitiveness.

2. THE CHALLENGE OF MERGERS AND A ACQUISITIONS WORLDWIDE

Nowadays, notions such as mergers and acquisitions, growth, economies of scale and many others have become true life lessons and under these circumstances of extremely fast-growing markets and products, cost efficiency and cost management remain the only competitive strategies in any industry. Through its definition, cost management is related to economies of scale and, in order to get higher, companies can expand towards other markets, can use product diversification, horizontal or vertical integration and even mergers and acquisitions (Kalpic, 2008). The growing size of the main players leads to a faster concentration of their industries and, under these circumstances, there is no surprise that the logic behind many mergers and acquisitions is the following: larger is more important than better.

The idea mentioned above is used by many companies that see a merger or an acquisition as a competitive advantage which will add value for the stakeholders. There is still an open question why large companies do not always succeed to be more efficient than most small companies and why a significant number of mergers and acquisitions do not add value for their stakeholders.

Kalpic (2008) also states that the continuous change within the structure of many industries has led to the development of two new strategic concepts: merger and industry consolidation theory and the rule

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of three. The first one focuses on the importance of growing the concentration process of industries (process within which all industries follow a similar concentration trajectory), while the second one refers to a scenario according to which in the end there are going to be just three "players" that will dominate a certain industry (the other companies will either be "niche players" or middle companies between generalists and specialists, a position that does not offer a long term viability). We do not know exactly whether these concepts can be applied to all industries, but one thing is certain: they come in handy for managers in terms of a deeper understanding of the process that reshapes the competitive landscape. In order to create correct strategies and to avoid frequent failures among acquisitions, managers should understand the true nature as well as the mechanism that lies behind the process of added value through the agency of mergers and acquisitions.

"Industry concentration might not be just a one-way street" says Kalpic in the same article. In other words, after such a concentration is achieved we might not have only advantages, but also disadvantages. The consolidation theory states that all corporations from various industries should get together and pass through various phases of this concentration process. Still, we must bear in mind the fact that there is a cyclicity of the concentration process, industries going through concentration as well as through deconcentration phases.

Nevertheless, Professor Brane Kalpic (2008) brings into discussion the transport cost problem that dissipates any conception according to which industries are global. This price caused by distance creates barriers which are sometimes impenetrable for some companies and protects in the same time local and regional markets from the globalization process and the global players. If a concentration of industries is outlined anyway, the synergies obtained are much smaller than the ones deriving from industries for which transport cost is not a significant factor. We should also mention the case when profits are earned locally or regionally and that determines the desire of global expansion to loosen, the concentration process thus taking place only at local / regional level.

Last but not least, the high costs of the complexity that important players deal with should also be underlined. Regardless the extraordinary powers large corporations possess, they also face a reduction of their scale effects due to complicated product portfolios, differences between markets, cultures, types of consumers, as well as due to applied technologies, fiscal systems and various regulations. All these allow small organizations to be competitive too and to become more profitable than large ones. And when his company is no profitable any more, a manager must also consider the option of selling it.

Venema (2007) claims that selling a company is a process with many ramifications and involves the coordination of several groups of people. Taking a decision under these circumstances is a very delicate process, and he who takes the decision must have in mind both the general context and the small details needed by a transaction (which could be represented even by an acquisition by another company).

The first step supposes identifying the problem or what we wish to accomplish. Then we must gather the necessary information in order to assess the alternatives, access to information and to relevant data being mandatory conditions in this case. Venema (2007) quotes in his article the great Chinese warrior, Sun Tzu, who says that "what enables the wise sovereign and good general to strike and conquer, and achieve things beyond the reach of ordinary men, is foreknowledge". In other words, skilled leaders are those who investigate the battlefield and the enemy before striking. Situations are similar in management, the managers of large companies being obliged today to move quickly and to adapt themselves to the business environment which is in a continuous change and competition. Time is also an essential element within a transaction, managers having to make sure that the organizations they are running act before the right moment has passed.

The next step is that one of developing the criteria required to cover and assess all the possible solutions. Generating the possible solutions, analyzing them and then comparing them are other steps. Finally, once the decision is taken, all we have to do is to implement it with the help of a good plan.

Preparing the company for the transaction continues the thorough process mentioned earlier, but this operation consists in teamwork because "A general is just as good or just as bad as the troops under his command make him" (MacArthur, n.d.). Appointing the transaction team is a first phase which could include the financial manager, the human resources one, the marketing manager, other specialists, as well as the chief executive. Each of them will have a clear cut role. Then, as the end of the transaction is near, the leader of the transaction team must receive periodical reports from all the other members who can prove that they have completed their tasks. All the financial documents need to be revised, an audit being most probably the best choice. Different reports, licenses, patents and balance sheets also need to be ready for the buying company to study them.

Trying to understand the point of view of the buying company as well, Maxwell (1998) identifies several areas of interest for the potential buyers. Here, we can mention the limits and the competitive advantages, the financial situation (balance sheets, company's projections), the technical professional approach (for this level we need to contact both the former and existing clients), market forecasts (market share, market growth, customers' buying habits), as well as certifications of the company. On the whole, buyers need to make sure that the organization they are running will be compatible with the other one, especially from the point of view of the market, employees and equipment.

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Healy et al. (1997) have reached the conclusion that strategic acquisitions (those friendly transactions that involve a payment in shares for companies whose businesses overlap) generate substantial earnings for the buying companies, while financial acquisitions (those hostile transactions between businesses that have nothing in common and that involve a payment in money) barely touch the profitability threshold.

While financial acquisitions have just one mistake that could stand in the way of a successful business transaction, that is an exaggerated payment for the target-company, Tanner (1991) establishes seven fatal errors which could lead strategic acquisitions to real disasters. Choosing the wrong target-company represents a first barrier. This error is visible after some time from the acquisition itself, when the anticipated synergies cease to appear and the technologies of the two firms prove not to be compatible. Paying more than the real value of the target-company is another mistake, this situation putting the buying company in a position of not being able to receive a loan. The structure chosen after the acquisition ends is subject to this issue and an error is this direction can lead to the impossibility of repatriating revenues or to a failure to meet anticipated benefits. Loosing a transaction for a bad communication or for a cover letter that has not been fully understood from the beginning by the target-company, a crisis just before the end of the transaction (which has a bad communication behind it), as well as several management difficulties due to the impossibility of offering a management continuity or defining authority limits represent other errors that can be encountered. Last but not least, a post transaction crisis must also be pointed out, situation which could appear due to a scarce interaction between the management structures of the two initial companies and the resilience to the new system.

3. THE SITUATION OF THE ROMANIAN MERGERS AND ACQUISITIONS MARKET

Unfortunately, for Romania, the data regarding mergers and acquisitions are very scarce and in most cases they are not available for the general public, companies that wish to obtain such information must resort to consulting firms that can offer such analyses. One of the reasons could be the fact that this market emerged later than in other countries and no one paid any interest to create a database, the privatization of the nineties representing most probably the starting point of the development of the mergers and acquisitions market. On the other hand, it is also true that this segment does not address to everyone, but to a very narrow category of persons, the real specialists of this domain. Moreover, many of the amounts involved in these transactions are not made public, so it is quite hard to understand the mergers and acquisitions market as a whole.

If till 2011 it was considered that the mergers and acquisitions market followed a trend which was similar to the letter "V" turned inside out, its peak representing the privatization of the Romanian Commercial Bank (BCR) in 2005 and the financial crisis from 2009 its turning point (Wall-Street, 2011), there are beliefs according to which this field will regain part of its handicap obtained in recent years, and the process will actually speed up during 2013 (Bankingnews.ro, 2012).

It is quite difficult to analyze the mergers and acquisitions market of the last years because the existing studies accomplished by companies that use separate methods present different results. Nevertheless, we have managed to elaborate a small synthesis of the public data provided by two of world's largest consulting companies, PricewaterhouseCoopers (PwC) and Ernst&Young (E&Y), by Capital Partners investment bank, and by the Annual European CMS Study regarding Mergers and Acquisitions (table 1).

TABLE 1 – CHARACTERISTICS OF THE ROMANIAN MERGER AND ACQUISITION MARKET

Year	PwC*		E&Y**		Capital Partners***		CMS Study****	
	Market value	No. of transactions	Market value	No. of transactions	Market value	No. of transactions	Market value	No. of transactions
2003	$ 0.54bn	33						
2004	$ 1.45bn	42						
2005	$ 5.8bn	117						
2006	$ 5.2bn	134						
2007								
2008							€ 3.62bn ($ 5.2bn)	238
2009			$ 3.5bn	112	€ 1.045bn ($ 1.41bn)	80		
2010			$ 1.2bn	114	€ 302m ($ 421.8m)	53	€ 1.68bn ($ 2.34bn)	223
2011			$ 0.9bn	120	€ 727m ($ 1.01bn)	107	€ 1.26bn ($ 1.75bn)	162

Source: *adapted from Business24.ro (2006); Finit Consult & Management (n.d.); Popescu (2005);
** adapted from Ernst&Young (2011); Ernst&Young (2012)
*** adapted from Vrinceanu (2010), Vrinceanu (2012)
**** adapted from Doingbusiness.ro (2012)

As it can be seen in table 1, the data provided by the last two institutions are expressed in Euros and that is why we have used the annual average rates of the euro-dollar ratios in order to convert the currencies (table 2).

TABLE 2 – THE ANNUAL AVERAGE EURO TO DOLLAR EXCHANGE RATE

Year	Annual average exchange rate		Euro-dollar ratio (EUR/USD)
	Euro	Dollar	
2008	3.6827 RON	2.5188 RON	1.4622
2009	4.2373 RON	3.0493 RON	1.3559
2010	4.4394 RON	3.1779 RON	1.3968
2011	4.2379 RON	3.0486 RON	1.3898

Source: author's own computation using BNR data

While the analysts from PricewaterhouseCoopers claimed in 2006 that foreign investors' involvement will help revealing Romania's economic competitive potential (Finit.ro, 2007), the specialists from Ernst&Young (2012) declared at the beginning of this year that the Romanian merger and acquisition market has not yet bounced back, and the situation only underlines the differences between the expectations of sellers and those ones of buyers, as well as the tensions of the euro zone. The same problems of the euro zone are remembered by the Capital Partners investment bank too (Vrinceanu, 2012), while the CMS study points out the existence of some successful sectors in 2011 which foresee a growing potential for 2012, namely gas and petrol, agriculture, media and telecommunications, real estate etc (Doingbusiness.ro, 2012). And even though the explanations offered by all the above mentioned sources are similar, the number they released are totally different and reflect the complexity of this market.

4. CONCLUSIONS

All in all, the acquisition of a company or the merger with another represent strategic manoeuvres which are very popular nowadays. Organizations choose one of these two options as an alternative or a supplement towards the internal efforts of growth, diversification and profitability.

It should also be noted that firms need to resort to these types of strategies only if they prove in a clear way that their organizational performances will improve considerably. Otherwise, in the case of the slightest doubt of not being able to accomplish the synergies, companies should not adventure in transactions like these.

In Romania, although the spin-off for the two solutions presented above is much smaller, the financial crisis reducing managers' wish to apply for strategies like these, there are still international breaking opportunities. At the present moment, we are holding the 36th place among 148 countries according to Business Cass University from London in a ranking that measures the attractiveness of a country to resort to acquisitions (Enache, 2012).

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